

Message Text

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C O N F I D E N T I A L TOKYO 18552

E.O. 11652: GDS

TAGS: ENRG, OPEC, JA

SUBJECT: OPEC PRICE DECISION: PRELIMINARY JAPAN REACTION

REF: TOKYO 18524

1. SUMMARY. DECISION ON TWO PRICE LEVELS HAS SURPRISED JAPANESE OFFICIALS, AND MADE MORE DIFFICULT TASK OF ASSESSING IMPACT OF PRICE RISE ON ECONOMY. CHALLENGE TO SAUDI LEADERSHIP SEEN AS HAVING MAJOR IMPACT ON FUTURE OF OPEC. END SUMMARY.

2. BEGIN UNCLASSIFIED. FOLLOWING IS TEXT OF ARTICLE IN SATURDAY MORNING EDITION OF ENGLISH LANGUAGE JAPAN TIMES WHICH PROVIDES PRELIMINARY MITI ANALYSIS OF DECISION ON TWO-TIER PRICE DECISION. QTE OFFICIALS OF THE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY (MITI) FRIDAY STARTED INVESTIGATING THE ECONOMIC IMPACT OF AN ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES (OPEC) "DUAL PRICE" CRUDE OIL PRICE INCREASE WHICH THEY HAD NOT EXPECTED.

MITI OFFICIALS PREDICTED DIFFICULTY IN BOOSTING JAPAN'S CRUDE OIL IMPORTS FROM SAUDI ARABIA AND THE UNITED ARAB EMIRATES (UAE) BOTH OF WHICH DECIDED TO UP THEIR OIL PRICES BY A SMALLER MARGIN THAN THE OTHER OPEC NATIONS.

IT WILL BE DIFFICULT TO GREATLY INCREASE IMPORTS SOON
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FROM THE TWO COUNTRIES, THEY SAID, BECAUSE JAPAN IS IMPORTING CRUDE OIL MOSTLY UNDER LONG TERM CONTRACTS.

JAPAN'S IMPORTS FROM SAUDI ARABIA ACCOUNTED FOR 27.2 PER CENT OF ITS TOTAL OIL IMPORTS AND THAT IMPORTED FROM THE UAE ACCOUNTED FOR 10.2 PER CENT IN FISCAL 1975, ACCORDING TO MITI.

IN THE SAME FISCAL YEAR, JAPAN DEPENDED ON OPEC NATIONS FOR 89.2 PERCENT OF ITS TOTAL OIL IMPORTS. THE BALANCE CAME FROM NON-OPEC PRODUCERS, INCLUDING COMMUNIST COUNTRIES.

SAUDI ARABIA PRODUCED 8.53 MILLION BARRELS PER DAY IN

AUGUST THIS YEAR. MITI OFFICIALS BELIEVE THAT COUNTRY WILL CONSIDERABLY INCREASE ITS OIL PRODUCTION NEXT YEAR.

SAUDI ARABIA OIL MINISTER SHEIKH AHMED ZAKI YAMANI REPORTEDLY SAID HIS COUNTRY'S MAXIMUM PRODUCTION CAPACITY IS 11.8 MILLION BARRELS PER DAY?

MITI OFFICIALS POINTED OUT, HOWEVER, THAT EVEN IF THE 11 OTHER OPEC NATIONS RAISED THE PRICE BY 10 PERCENT, JAPAN WOULD BE ABLE TO LIMIT THE RATE OF INCREASE IN ITS OIL IMPORT PRICES TO LESS THAN 10 PERCENT THROUGH NEGOTIATIONS WITH INDIVIDUAL OIL EXPORTING COUNTRIES.

THE 10 PERCENT RAISE WILL NOT APPLY ACROSS THE BOARD TO ALL TYPES OF OIL, AND SPECIFIC PAYMENT TERMS ARE SUBJECT TO NEGOTIATIONS AS WAS THE CASE WITH OPEC'S PREVIOUS PRICE RAISE IN OCTOBER OF LAST YEAR, THEY SAID.

IT IS BELIEVED, MITI OFFICIALS SAID, THAT THE OPEC NATIONS HAVE NOT YET DECIDED ON ANY SPECIFIC FORMULA FOR REGULATING PRICE DIFFERENTIALS ON VARIOUS TYPES OF OIL. END QTE.

3. SAME ARTICLE REPORTS GOJ EXPRESSION OF QTE DEEP CONCERN UNQTE (REFTEL PARA 2C) AT PRICE RISE. ALSO REPORTED IS STATEMENT OF MASAO SAKISAKA, DIRECTOR OF THE INSTITUTE OF ENERGY ECONOMICS TO THE EFFECT THAT THE WEIGHTED IMPACT OF THE TWO-TIER OIL PRICE RISE ON JAPAN'S IMPORTS OF CRUDE OIL WOULD BE SIX TO SEVEN PERCENT. HE IS ALSO REPORTED TO HAVE PREDICTED THAT ITS IMPACT ON THE JAPANESE ECONOMY WOULD BE RELATIVELY SMALL BECAUSE A RISE OF LESS THAN 10 PERCENT WOULD REDUCE ITS ANNUAL GROWTH RATE BY ONLY ABOUT 9.5 PERCENT IN REAL TERMS.

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4. END UNCLASSIFIED. BEGIN CONFIDENTIAL. SEVERAL INTERESTING INITIAL OBSERVATIONS EMERGED FROM TALKS WITH KARITA AND KINOSHITA SATURDAY MORNING REGARDING THE MEANING OF THE TWO-TIER SYSTEM. THERE IS APPARENTLY A FEELING AMONG INDUSTRY AND ACADEMIC CIRCLES THAT THE 10 PERCENT PRICE LEVEL WILL NOT HOLD, AND THAT THUS WHAT IS SEEN AS A CHALLENGE TO SAUDI LEADERSHIP WILL FAIL. ON THE OTHER HAND, IT WAS POINTED OUT THAT ALTHOUGH YAMANI STATED IN HIS PRESS CONFERENCE THAT SAUDI ARABIA WOULD HOLD TO THE FIVE PERCENT LEVEL, THE COMMUNIQUE FROM DOHA DOES NOT MENTION THIS TIME PERIOD, REFLECTING, IT IS THOUGHT, THE RELUCTANCE OF THE UAE TO COMMIT ITSELF TO SUPPORT FOR THE FIVE PERCENT LEVEL FOR THAT LENGTH OF TIME.

5. THE ACTUAL ECONOMIC IMPACT WILL BE DIFFICULT TO ASSES, HOWEVER, FOR SEVERAL REASONS. AMONG THESE ARE THE LENGTH AND TERMS OF PRESENT CONTRACTS (MOST OF WHICH ARE WITH THE MAJORS), THE SUBSTITUTABILITY OF TEN PERCENT OIL FOR FIVE PERCENT OIL, THE ROLE WHICH THE MAJORS WILL PLAY IN MIXING THE VARIOUSLY PRICED OIL FOR THEIR CUSTOMERS, AS WELL AS, OF COURSE, HOW LONG THE 10-15 PERCENT LEVEL HOLDS. THIS UNCERTAINTY ABOUT THE COST IMPACT ON THE CONSUMERS WILL PROBABLY MAKE PURCHASING AND INVESTMENT DECISIONS AND ECONOMIC PLANNING AND FORECASTING MORE DIFFICULT, AND THUS MAKE EVEN MORE COMPLEX THE PROBLEMS FOR THOSE NATIONS WHICH

WOULD OTHERWISE HAVE FACED A PAINFUL, BUT PREDICTABLE HIGHER OIL COST.

6. IN SUM, THE DECISION SURPRISED OFFICIALS HERE WHO HAD EXPECTED THAT INSPITE OF YESTERDAY'S REPORTS OF A TWO-TIER DECISION, A COMPROMISE WOULD BE WORKED OUT. (KINOSHITA POINTED OUT, HOWEVER, THAT THE DECISION PRETTY WELL FOLLOWED THE SCENARIO OUTLINED IN NEWSWEEK, NOVEMBER 22, 1976, PAGE 41.) A PRELIMINARY CONCLUSION IS THAT WHETHER THE CHALLENGE TO THE SAUDI'S SUCCEEDS- AND THE TEN/FIFTEEN PERCENT LEVEL HOLDS-OR IT FAILS, OPEC WILL BE A DIFFERENT ORGANIZATION.

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